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CONFIDENTIAL

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Dear David

Further to our telephone conversation, here are a few thoughts which might provide the starting point for the Prime Minister's Central Council's speech, and which stand back a bit from the daily scene.

The aim would be to reassert and re-emphasise the underlying strategic purposes of this Government and show how they harmonise with what is actually happening beneath the surface of daily events in our country.

Indeed, the Prime Minister is entitled to point out that despite all the current furore the evidence is mounting all the time that the symptoms of the so called British disease are neither as inevitable nor in fact as deeply entrenched as commentators persistently assumed throughout the 1970s. The wish of the majority to work steadily is being expressed more strongly than ever. The character of the ugly minority who want otherwise is becoming daily more exposed for all to see.

The central assumption of the policy-making establishment over the last 15 years has been that the TUC was the major force in the land and in industry and had somehow to be appeased and brought along in consensus with public policy.

What we are now seeing with every bit of news that comes in is that this is just not so. The TUC is neither in control of its anarchic elements which are breaking away to the left nor of its much more numerous moderate elements which are overthrowing its diktats in favour of commonsense and hard work.

Against this background the Prime Minister might make the following fundamental points:

(i) one of our purposes in coming before the Electorate with our manifesto and in offering ourselves for office as a Conservative Government was to combat what one might call the "irreversibility" thesis, namely the widespread and defeatist view which reached its zenith in Britain in the 1970s that Trade Union and State power were bound to go on growing and personal freedom shrinking under the impact

of social ownership and collectivism and that there was not much anyone could do about it.

We came to office in May 1970 to reject precisely that kind of thinking. We sought to show not merely that new policies were needed but that there were already new forces and new pressures at work inside our country pushing people in a totally different direction - not necessarily back towards pre-socialist capitalism but forwards towards a much more open less class-categorised kind of community and with a wider diffusion of power and therefore a greater element of democracy than anything the egalitarians have been able to deliver up. A popular pressure, too strong for the oligarchs of class politics to withstand, has begun to demand a different approach.

(ii) It is now no exaggeration at all to say that socialism is on the defensive and not just in party political terms but in intellectual terms as well. For the first time in years, opponents of the collectivist philosophy have at last begun to shed some of the moral inferiority, the almost apologetic quality which has characterised post-war non-socialist politics. People in public discussion and debate have begun, as Lord Hailsham puts it, to find themselves increasingly compelled "to use arguments founded on the half forgotten conception of right and wrong, justice and injustice". The march of left wing ideology has faltered.

(iii) The Prime Minister might also go on to argue while none of this suggests that the battle against collectivism is won - indeed it is only under way - there is an undeniable record of failure for socialism, that the belief in its "inevitability", which seemed at one time to paralyse creative political thinking in this country, is no longer convincing.

Turning from these general background points and relating them to the present situation the Prime Minister might say that while the move away from collectivism to give Britain a more resilient economy was urgent enough last May the task has been made many times more urgent - and also more difficult to carry through - by the events of 1979 - namely the rising world tension, the increasing precariousness of energy supply lines and the soaring price of oil - which is one of the most widely used commodities upon which our economy and other western economies post-war have been founded.

She could go on to say that reference to the enormous impact of the doubling oil price in 1979 is not in any sense an alibi but a fact - and a fact making it far more essential than ever that the British economy adapts out of its ponderous collectivist mould into an infinitely more enterprising pattern. (Material input costs rose 27.1% in 1979; without oil price increases the figure would have been 10%).

She could add, with justification, that in some areas the change does seem to be happening. One only has to travel round the country to find

signs of a new spirit of enterprise amongst business men and entrepreneurs to go for new products and services to meet the markets of the 1980s.

I attach a speech which I made recently to the CPC developing some of these thoughts and, in particular, drawing the contrast between the realistic way we are coping with the second oil crisis (and with our legacy of industrial weakness) and the Labour performance after the first oil crisis, which ended in total humiliation.

I have a good deal more material in similar vein.

The speech might end by repeating that this moment, above all, is the one when we must not waver. Difficult decisions, shirked for years, have now to be taken. The deep unconventional wisdom of the British people knows and recognises this reality. The real Britain is deeply loyal to the ideas and beliefs in which we campaigned. We will be loyal in return.

D A R HOWELL

David

I am copying this to John Haskins.

NEWS SERVICE

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Extract from a speech by The Rt Hon David HOWELL, MP, (Guildford) Secretary of State for Energy, speaking to the South Eastern Area CPC, at Conservative Central Office, on Wednesday, 20th FEBRUARY, 1980.

MINISTER SCORNS 'NOT JUST YET, PLEASE' MENTALITY

In 1979 oil prices rose by 100 per cent. The result is that the economies of the world have again been knocked sideways, as they were in 1973-74, but with this difference. Unlike the aftermath to the Yom Kippur War, the prospect now is not for oil prices falling back again, but for a sustained increase ahead of general inflation.

The country is scarcely aware yet of the impact that such violent price movements have on our economy. A 10 per cent rise in oil prices may knock a quarter or even a half percentage point off our prospects for GDP growth in the following year. It may add a quarter or even a half percentage to the retail price index. And I repeat that last year oil prices rose 100 per cent.

In these circumstances even to keep our heads above water would be a major success. I believe that we shall do very much better than that. But we cannot be immunised against world energy prices.

Those who cannot adjust without hardship must be helped. The rest of us have to adapt: either to use less energy (using it more efficiently), or using the same as before and spending less on other things. That is the inescapable choice.

The alternative to this was rejected by the Western industrialised countries when they met at Tokyo last year. That alternative is simply to refuse to face the realities and instead vainly to attempt to compensate people in full for the higher prices being injected by fuel into the weekly budget.

This last course is the road, via fantasy, to hyperinflation. In recent years it has often seemed the habitual road of the British - based on the comfy assumption that whoever else has to take the heat, Britain can somehow avoid the issues and the rest of the world will rally round.

/This seems...

This seems to have been the doctrine in the mid-seventies, when Britain went round with staff and begging bowl, urging the more disciplined economies to spread a few more crumbs and help a friend for the sake of old times.

We are having to unravel 15 years or so of public 'coming', of belief that Government induced price restraint does not have to be paid for, or that something call 'Government money' can bridge the gap painlessly.

That myth is now exploded. Take crude oil prices rising almost monthly. Add gas prices linked increasingly by overseas suppliers to oil prices. Add the nervous readiness of oil traders to go on paying grasping prices to some oil producers now for fear of damaging their trading relations later. These facts of life impose on us the need to adjust. Either it can be done by gradually letting supply and demand work again through price. Or it is done through rationing, regimentation and authority. I prefer the former.

The world crisis compounds the British crisis. At the election we spelled out the need to return to economic realism. It is now many times more necessary, and yet many times harder to put across and to implement.

But this is not the moment to waver. Of course at just such moments there are always those ready to deplore too much economic realism, people who agree with the objective - but who ask, "Not just yet please, a little later, mañana".

These mañana experts are, I believe, the ones who serve Britain worst of all. Always agreeing the broad line, they scurry aside as soon as the inevitable hinge-points of decision are reached.

Now no-one is more convinced than I am that life is about more than economics, that the market economy must be social - indeed that the social market economy is not enough.

In the coming months much of this will be put to the test. We shall hear those who believe, as I do, in the deep common sense unity of our nation. Nevertheless some rattle with dismay at the difficult decisions that first have to be faced before the easier ones become possible. We shall be told that there are other ways round, that we should somehow leap into the long term whilst by-passing the short.

We have built a post-war welfare castle on economic sand. Now world reality is

/intruding...